

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Dorr Twp - Leighton Twp Waste Water Auth.	County Allegan
Fiscal Year End December 31, 2006	Opinion Date June 5, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

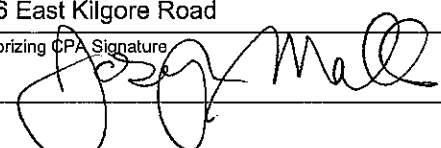
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter	
Certified Public Accountant (Firm Name) Siegfried Crandall PC		Telephone Number (269)381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature 		Printed Name Joseph M. Walls	License Number 1101013696

*Dorr Township - Leighton Township Waste Water Authority  
Allegan County, Michigan*

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

*Years ended December 31, 2006 and 2005*

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## INDEPENDENT AUDITORS' REPORT

**Members of the Board  
Dorr Township - Leighton Township  
Waste Water Authority**

We have audited the accompanying basic financial statements of the Dorr Township - Leighton Township Waste Water Authority, as of December 31, 2006 and 2005, and for the years then ended, as listed in the contents. These financial statements are the responsibility of the Dorr Township - Leighton Township Waste Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dorr Township - Leighton Township Waste Water Authority at December 31, 2006 and 2005, and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Dorr Township - Leighton Township Waste Water Authority has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Siegfried Crandall P.C.*

June 5, 2007

## **BASIC FINANCIAL STATEMENTS**

**Dorr Township - Leighton Township Waste Water Authority**

**STATEMENT OF NET ASSETS**

*December 31, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 475,870	\$ 688,434
Investments	1,103,000	887,297
Receivables	<u>356,943</u>	<u>388,979</u>
Total current assets	<u>1,935,813</u>	<u>1,964,710</u>
Noncurrent assets:		
Receivables	730,216	939,093
Capital assets not being depreciated	49,385	624,496
Capital assets, net of accumulated depreciation	<u>7,051,127</u>	<u>6,409,039</u>
Total noncurrent assets	<u>7,830,728</u>	<u>7,972,628</u>
Total assets	<u>9,766,541</u>	<u>9,937,338</u>
<b>LIABILITIES</b>		
Current liabilities:		
Payables	59,099	58,809
Current portion of long-term obligations	<u>50,000</u>	<u>50,000</u>
Total current liabilities	109,099	108,809
Noncurrent liabilities - long-term obligations	<u>4,724,154</u>	<u>4,753,355</u>
Total liabilities	<u>4,833,253</u>	<u>4,862,164</u>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	2,326,358	2,230,180
Unrestricted	<u>2,606,930</u>	<u>2,844,994</u>
Total net assets	<u>\$ 4,933,288</u>	<u>\$ 5,075,174</u>

*See notes to financial statements*

**Dorr Township - Leighton Township Waste Water Authority**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
*Years ended December 31, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Sewer usage charges	\$ 293,551	\$ 257,687
<b>OPERATING EXPENSES</b>		
Administrative wages and per diems	17,064	13,953
Payroll taxes	1,270	2,435
Maintenance and repairs	54,896	32,206
Professional fees	18,653	28,120
Contract services	118,450	115,000
Telephone	4,371	3,919
Insurance	7,423	9,804
Utilities	32,779	30,606
Miscellaneous	5,014	4,816
Depreciation	222,169	211,366
Total operating expenses	<u>482,089</u>	<u>452,225</u>
<b>OPERATING LOSS</b>	<u>(188,538)</u>	<u>(194,538)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Assessments	-	919,343
Hook-up fees	144,950	55,424
Interest revenue	127,342	80,969
Interest expense	<u>(225,640)</u>	<u>(189,552)</u>
Total nonoperating revenues	<u>46,652</u>	<u>866,184</u>
<b>CHANGE IN NET ASSETS</b>	(141,886)	671,646
<b>NET ASSETS - BEGINNING</b>	<u>5,075,174</u>	<u>4,403,528</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 4,933,288</u>	<u>\$ 5,075,174</u>

*See notes to financial statements*

**Dorr Township - Leighton Township Waste Water Authority****STATEMENT OF CASH FLOWS***Years ended December 31, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 296,871	\$ 254,730
Payments to suppliers	(240,628)	(222,308)
Payments to employees	<u>(16,857)</u>	<u>(13,953)</u>
Net cash provided by operating activities	<u>39,386</u>	<u>18,469</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Hook-up fees	83,009	55,424
Assessment collections	312,345	336,915
Interest on special assessments	62,168	37,888
Acquisition of capital assets	(291,041)	(558,499)
Issuance of general obligation bonds	-	5,070,046
Bond issuance costs	-	(225,046)
Interest paid on general obligation bonds	(205,091)	(189,120)
Principal paid on general obligation bonds	<u>(50,000)</u>	<u>(4,215,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>(88,610)</u>	<u>312,608</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption of investments	1,037,297	70,000
Purchase of investments	(1,253,000)	(665,000)
Interest on investments	<u>52,363</u>	<u>34,061</u>
Net cash used in investing activities	<u>(163,340)</u>	<u>(560,939)</u>
<b>NET DECREASE IN CASH</b>	<u>(212,564)</u>	<u>(229,862)</u>
<b>CASH - BEGINNING</b>	<u>688,434</u>	<u>918,296</u>
<b>CASH - ENDING</b>	<u>\$ 475,870</u>	<u>\$ 688,434</u>

*See notes to financial statements*



**Dorr Township - Leighton Township Waste Water Authority****STATEMENT OF CASH FLOWS (Continued)***Years ended December 31, 2006 and 2005*

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	<u>2006</u>	<u>2005</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>		
Operating loss	\$ (188,538)	\$ (194,538)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	222,169	211,366
Decrease (increase) in accounts receivable	3,320	(2,957)
Increase in accounts payable	<u>2,435</u>	<u>4,598</u>
Net cash provided by (used in) operating activities	<u>\$ 39,386</u>	<u>\$ 18,469</u>
<b>Supplementary information:</b>		
Acquisition of capital assets	\$ (289,146)	\$ (575,111)
Increase (decrease) in accounts payable	<u>(1,895)</u>	<u>16,612</u>
Cash used	<u>\$ (291,041)</u>	<u>\$ (558,499)</u>

*See notes to financial statements*

**Dorr Township - Leighton Township Waste Water Authority**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Dorrr Township - Leighton Township Waste Water Authority, Michigan (the Authority), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

*b) Basis of accounting:*

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

*c) Operating revenues and expenses:*

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to customers for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*d) Assets and liabilities:*

*i) Cash* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

*ii) Receivables* - All receivables are considered to be fully collectible.

*iii) Capital assets* - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are comprised of the Authority's sewer system and improvements, which are being depreciated using the straight-line method over a 40 year estimated useful life.

**Dorr Township - Leighton Township Waste Water Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 2 - CASH:**

	<u>2006</u>	<u>2005</u>
<i>Financial statements:</i>		
Cash	\$ 475,870	\$ 688,434
Investments	<u>1,103,000</u>	<u>887,297</u>
	<u>\$1,578,870</u>	<u>\$1,575,731</u>
<i>Notes to financial statements:</i>		
Deposits	<u>\$1,578,870</u>	<u>\$1,575,731</u>

*Deposits with financial institutions* - State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. As of December 31, 2006, \$1,080,637 of the Authority's bank balances of \$1,580,637 was exposed to custodial credit risk, because it was uninsured and uncollateralized. The Authority believes that it is impractical to insure all bank deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**NOTE 3 - RECEIVABLES:**

Receivables for the Authority as of years ended December 31, 2006 and 2005, in the aggregate, are as follows:

	<u>Charges for services</u>	<u>Interest</u>	<u>Special assessments</u>	<u>Totals</u>
2006	\$ 14,042	\$ 27,242	\$ 1,045,875	\$ 1,087,159
2005	\$ 17,362	\$ 14,431	\$ 1,296,279	\$ 1,328,072
Noncurrent portion:				
2006	\$ -	\$ 16,641	\$ 713,575	\$ 730,216
2005	\$ -	\$ 14,431	\$ 924,662	\$ 939,093

**Dorr Township - Leighton Township Waste Water Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity of the Authority for the years ended December 31, 2006 and 2005, was as follows:

	<i>Balance January 1, 2006</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance December 31, 2006</i>
Capital assets not being depreciated:				
Land	\$ 49,385	\$ -	\$ -	\$ 49,385
Construction in progress	575,111	-	(575,111)	-
Total capital assets not being depreciated	624,496	-	(575,111)	49,385
Capital assets being depreciated:				
Sewer system	8,454,799	864,257	-	9,319,056
Less accumulated depreciation for:				
Sewer system	(2,045,760)	(222,169)	-	(2,267,929)
Total capital assets being depreciated, net	6,409,039	642,088	-	7,051,127
Total capital assets, net	\$ 7,033,535	\$ 642,088	\$ (575,111)	\$ 7,100,512
	<i>Balance January 1, 2005</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance December 31, 2005</i>
Capital assets not being depreciated:				
Land	\$ 49,385	\$ -	\$ -	\$ 49,385
Construction in progress	-	575,111	-	575,111
Total capital assets not being depreciated	49,385	575,111	-	624,496
Capital assets being depreciated:				
Sewer system	8,454,799	-	-	8,454,799
Less accumulated depreciation for:				
Sewer system	(1,834,394)	(211,366)	-	(2,045,760)
Total capital assets being depreciated, net	6,620,405	(211,366)	-	6,409,039
Total capital assets, net	\$ 6,669,790	\$ 363,745	\$ -	\$ 7,033,535

**Dorr Township - Leighton Township Waste Water Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - PAYABLES:**

Payables for the Authority as of years ended December 31, 2006 and 2005, in the aggregate, are as follows:

<u>Operating fund</u>	<u>Accounts</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 25,082	\$ 34,017	\$ 59,099
2005	24,542	34,267	58,809

**NOTE 6 - LONG-TERM LIABILITIES:**

Long-term debt at December 31, 2006 and 2005, is comprised of the following individual issues:

	<u>2006</u>	<u>2005</u>
In 2005, the Authority refinanced its outstanding debt and financed improvements of its waste water system through the issuance of general obligation limited tax bonds in the amount of \$5,060,000. The bonds are due in annual installments ranging from \$50,000 to \$390,000 through May 2025, plus interest at 3.00 - 4.40% per annum, payable in semi-annual installments.	\$ 5,010,000	\$ 5,060,000
Less unamortized premium	9,232	10,046
Less unamortized refinancing charges	<u>(245,078)</u>	<u>(266,691)</u>
Total long-term liabilities	<u>\$ 4,774,154</u>	<u>\$ 4,803,355</u>

The full faith, credit, and resources of the Township of Dorrr and the Township of Leighton have been pledged for the prompt payment of all debt requirements.

Long-term liability activity for the year ended December 31, 2006 and 2005, was as follows:

	<u>Balance</u> <u>December</u> <u>31, 2004</u>	<u>Debt</u> <u>issued</u>	<u>Retirements</u>	<u>Balance</u> <u>December</u> <u>31, 2005</u>	<u>Current</u> <u>portion</u>
1992 Revenue bonds	\$ 215,000	\$ -	\$ (215,000)	\$ -	\$ -
1999 bonds	4,000,000	-	(4,000,000)	-	-
2005 Refinancing bonds	-	5,060,000	-	5,060,000	50,000
Unamortized bond discount	(41,645)	-	41,645	-	-
Unamortized bond premium	-	10,046	-	10,046	-
Unamortized refinancing charges	<u>-</u>	<u>(266,691)</u>	<u>-</u>	<u>(266,691)</u>	<u>-</u>
	<u>\$ 4,173,355</u>	<u>\$ 4,803,355</u>	<u>\$ (4,173,355)</u>	<u>\$ 4,803,355</u>	<u>\$ 50,000</u>

**Dorr Township - Leighton Township Waste Water Authority**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 6 - LONG-TERM LIABILITIES (Continued):

	<i>Balance December 31, 2005</i>	<i>Debt issued</i>	<i>Retirements</i>	<i>Balance December 31, 2006</i>	<i>Current portion</i>
2005 Refinancing bonds	5,060,000	-	(50,000)	5,010,000	\$ 50,000
Unamortized bond premium	10,046	-	(814)	9,232	-
Unamortized refinancing charges	<u>(266,691)</u>	<u>-</u>	<u>21,613</u>	<u>(245,078)</u>	<u>-</u>
	<u>\$ 4,803,355</u>	<u>\$ -</u>	<u>\$ (29,201)</u>	<u>\$ 4,774,154</u>	<u>\$ 50,000</u>

Debt service requirements at December 31, 2006, were as follows:

<i>Year ended December 31:</i>	<i>Principal</i>	<i>Interest</i>
2007	\$ 50,000	\$ 203,289
2008	50,000	201,601
2009	50,000	199,726
2010	235,000	194,467
2011	245,000	185,614
2012 - 2016	1,340,000	765,712
2017 - 2021	1,565,000	497,159
2022 - 2025	<u>1,475,000</u>	<u>131,499</u>
Totals	<u>\$ 5,010,000</u>	<u>\$ 2,379,067</u>

NOTE 7 - CLAIMS ARISING FROM RISKS OF LOSS:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Members of the Authority Board  
Dorr Township - Leighton Township Waste Water Authority**

In planning and performing our audit of the financial statements of The Dorr Township - Leighton Township Waste Water Authority as of and for the years ended December 31, 2006 and 2005, in accordance with U.S. generally accepted auditing standards, we considered The Dorr Township - Leighton Township Waste Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they had been implemented, but it did not include procedures to test the operating effectiveness of controls, and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

The Authority does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of management, the Board of Trustees of the Dorr Township - Leighton Township Waste Water Authority, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

*Siegfried Crandall P.C.*

June 5, 2007